

## SFC reprimands and fines RBC Investment Management (Asia) HK\$4 million

16 Aug 2012

The Securities and Futures Commission (SFC) has reprimanded and fined RBC Investment Management (Asia) Limited (RBC) HK\$4 million in relation to its provision of investment advice to clients on a number of non-SFC authorized funds between November 2006 and July 2008 (Note 1).

RBC has also agreed to make repurchase offers to eligible customers and compensation to eligible former customers in a resolution made under section 201 of the Securities & Futures Ordinance.

An SFC investigation into RBC's practices and procedures, as they existed from 2006 to 2008, in providing investment advice for a number of non-SFC authorized funds found that:

- RBC did not provide adequate guidance to its staff on conducting due diligence on funds before making investment recommendations or solicitations to clients.
- RBC relied on its Singapore office to conduct due diligence on investment products but it saw no record of any due diligence conducted by its Singapore office, and therefore was not aware of the scope and the extent of any due diligence carried out by its Singapore office.
- RBC did not provide adequate practical guidance to relationship managers (RMs) in providing investment advice or recommendations. RBC also did not have any measure for the overall risk of investment products it sold. Therefore, it was difficult for the RMs to ensure that the advice and recommendations they provided would best fulfill the clients' investment objectives and other circumstances.
- RBC's RMs did not record or document any product suitability assessment they had undertaken to demonstrate that RBC was reasonably satisfied that the investment products recommended by the RMs were suitable for their clients.
- RBC did not have adequate procedures in place requiring the RMs to document their investment advice or recommendation and the underlying rationale and to provide a copy of the same to the clients. Therefore, RBC's supervision of RMs could not have been effective in terms of ensuring that recommendations or solicitations made to clients were suitable and reasonable in all the circumstances (Note 2).

Since RBC's systems had failed to ensure that its investment recommendations to clients were based on thorough analysis and were reasonable in all the circumstances during the period mentioned, the SFC considers that RBC's breaches are prejudicial to the interest of the investing public.

Pursuant to the resolution, RBC will:

- make repurchase offers to all eligible customers at a price equal to 100% of the principal amount invested (Note 3);
- pay compensation to all its eligible former customers in respect of their previous holding(s) in the relevant non-SFC authorized funds in an amount equal to the repurchase amount less any sale proceeds received (Note 4);
- immediately implement special enhanced complaints handling procedures to resolve, in a fair and reasonable manner, all complaints in relation to the purchase and sale of investment products or the provision of investment advisory services relating to such purchase and sale; and
- engage an independent reviewer, to be approved by the SFC, to review its systems and processes in respect of its distribution of unlisted investment products.

The SFC acknowledges RBC's full co-operation to resolve the SFC's concerns and notes that RBC has strengthened its internal systems and controls in respect of its distribution of unlisted investment products. As a consequence, the SFC has reduced the fine.

"Concerns over misconduct, like the ones in this case, test the values of organisations. The response to problems is often a much better indicator of an organisation's integrity and values than the fact of the problem itself. RBC responded to our concerns immediately for the benefit of its customers and passed this test," the SFC's Executive Director of Enforcement, Mr Mark Steward said.

End

Notes:

1. RBC is licensed under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities.
2. RBC relied on e-mails, meeting call reports, file notes and telephone recordings as records of investment advice and recommendation. However, such records are incomplete and do not provide a substantiated account of the advice and/or recommendation given and the underlying rationale.
3. Eligible customers are RBC customers who have open positions in the relevant non-SFC authorized funds purchased through RBC. The offer price will be net of any distributions received by eligible customers where the relevant funds have been liquidated and the amount of any payment that RBC has already made to some eligible customers. The offer price will include an additional amount representing the interest that would have been earned if the amount invested in the relevant funds had been invested with RBC on a fixed term deposit. The calculation of the interest is based on the full nominal value of the customer's total investment in the relevant non-SFC authorized funds, or, in the case of eligible customers who have received distributions where the relevant funds have been liquidated and/or payment from RBC, on the outstanding value of the customer's investment in the relevant non-SFC authorized funds from time to time, taking into account the distributions and/or payments such customers have received, using the average of counter rates from RBC on a 12-month deposit in the currency which the relevant fund was denominated (RBC Rates) (where available) or the average of interest rates quoted on Bloomberg Terminal on a 12-month deposit in the currency which the relevant fund was denominated (where RBC Rates are not available) from the date the eligible customer purchased the relevant fund to the date of the agreement between RBC and SFC for the resolution of its disciplinary action against RBC.
4. Eligible former customers are customers who would otherwise be eligible for the repurchase offer but for their sale of their holding(s) in the relevant non-SFC authorized funds. However, no compensation offer will be made to those eligible former customers who have received sale proceeds in relation to the relevant non-SFC authorized funds that are equal to or in excess of the repurchase amount.